OPCD/Income Security and Pension Policy (ISPPD)/Deloitte
Centre for Public Sector Labour Relations and Compensation (CFPSLRCD)
Kickoff Meeting
Pension Asset Ceiling Test
August 4, 2016
MEETING NOTES

Attendees

OPCD
Nadine Petsche
Bharat Patel
Pauline Fong
JD Fu

ISPPD
Alex Killoch
Ingrid Tsang

CFPSLRCD
Janette Jozefacki
Michael MacPherson

AON Hewitt
Allan Shapiro

OPTrust
Danny Goraichy

Deloitte LP
Trevor Gary
Martin Raymond
Matt Colley (absent)

Meeting notes:

Alex Killoch introduced the role of the Public Sector Pension Policy Branch as having responsibility for establishing management's best long term assumptions and communicating with pension plans. He introduced Alan Shapiro as the independent actuary engaged by his division to provide assessments to the government in matters related to the TPP. Danny Goraichy was introduced as the VP actuarial services and plan policy for OPTrust related matters. Alex explained that he sits on the Teacher's Partner Committee while Janette Jozefacki sits on the OP Trust sponsor board.

Alan Shapiro provided an overview of his work done to date on the TPP which focused on two main questions: access to benefits (economic value) which would be demonstrated by entitlements under TPP which is subject to 50/50 sharing. He described the Joint Sponsored Pension Plan as one in which both the costs and the risks are shared 50/50, including deficit contributions which he compared with PSAB's references which describes an alternative situation where the total cost is calculated first and then the employee contributions are netted. Alan observed that the analysis in his memo (circulated prior to the call) appeared to be consistent with the documentation provided by Deloitte which highlighted matters for consideration.

Martin Raymond from Deloitte commented on Alan Shapiro's analysis:

- Observed 'zones' referenced in the document where different methodologies might apply (suggested that these zones could be more clearly defined)

- Referenced process requirements that might need to be followed in order for the province to benefit from the surplus, but that they appear to be there (suggested a more detailed review of the appropriate policy documentation to confirm)
- Confirmed that the TPP is accounted for as a joint defined benefit plan, thus reflecting a 50% share (the ceiling would therefore be calculated based on a 50% share)
- Confirmed that the memo which reflects a $44M benefit represents 50% of the current service cost based on an open group notion). Martin commented that this long-term view is likely appropriate, observing little evidence of challenges in similar cases
- Martin referred para 56 (3250.056) referring to 'future economic benefit' calculations and in particular referenced recent challenges to analysis where the government has to make minimum contributions regardless of a surplus (suggesting that an approach which ignores this possibility might be considered generous)
- Martin enquired about the indexing assumptions applied (100% vs. 60%). Mercer provided analysis based on 100% indexing which is consistent with the accounting requirements. Some question regarding inflation and how it was factored in conjunction with the 50% joint sponsorship).
- Some discussion regarding the calculation of the assets based on market values vs. market related values and the unamortized gain. Martin referred to recent challenges to use of market related values. Alan advised that $7-8M would be added if the ½ portion of assets for the province were calculated using fair values.
- Martin acknowledged considerations under Balanced Budget legislation and the significant impact that could result if the asset ceiling triggers (on the statement of operations)
- He observed that the ceiling could be triggered by something that might take effect in future years, and commented that under IFRS the standards were structured to help manage the impact, but that PSAB offered no such relief).
- With regards to the Province's possible access to a surplus, he advised that any past ability to realize the economic value (i.e. precedent) may have been under different policy terms and conditions, and that it would be important to ensure facts were clearly identified to support accessibility.
- With regards to entitlements, Martin advised that some policies have been modified in recent years to allow for sponsors to have temporary access to benefits on a temporary basis (under zones) rather than wait until the surplus is large enough to benefit on a more permanent basis.
- Zones were introduced to help to take advantage of benefits before the surplus reached a large amount.
- Preliminary analysis indicates a $20B surplus based on market related values and $28B based on market values (actual surplus vs. assets reported on balance sheet) which equates to about 15-20 years of current service cost.
- From the perspective of the ability of both sides being able to reduce their contribution over time, the $25B would equate to about a 6% permanent change in current service costs where 1% is about 4B in costs.
- There is more challenge in recent years where huge asset positions are being reported.

- The funding position is more stable (there is more margin in funding calculations)
- Mercers also provided calculations based on a 'closed group' basis and the surplus was still significant at $18B—20B for existing employees.
- Martin also advised of actions taken by other jurisdictions (e.g. Quebec) to address balanced budget volatility and potential negative fiscal impacts (2007 changes to balanced budget definition)

Next Steps:

1. OPCD to advise the OAG that based on preliminary analysis and discussion, unlikely to have a fiscal impact for 2015-16 and that further documentation to follow.

2. Documentation for OPCD and OAG files to be prepared, covering analysis related to the current year's public accounts as well as considerations for future years (as input to upcoming fiscal planning process).

   Documentation to build upon Alan Shapiro's analysis, expanded for additional areas identified by Deloitte (details on zones, facts as related to current policy supporting province's access to benefits, potential challenges and considerations related to para 56, relevant indexing assumptions, market values vs. market related values. Also, consider including reference to IFRS mechanisms which would alleviate impact but which are not available under PSAB.

   In light of timing considerations for Public Accounts, Deloitte may contact Alan Shapiro directly to discuss approach and relative roles in completing documentation. Target date for draft documentation: August 12th.

3. OP Trust – similar analysis will have to be completed for the OPSEU pension plan. Deloitte to take the lead on preparing similar analysis for OPTrust as done for TPP. Deloitte to identify information required from Janette and or Danny to complete analysis. Target date for completion: August 16th